

Second, there was an absence of competitive pricing for specialty drugs via an exclusive specialty pharmacy network and benefit. Specialty pharmacy drugs are different from traditional medications in that they typically require special handling and administration (for example, infused or injected), are considerably more expensive and are used to treat a small subset of patients with chronic high cost conditions, such as hemophilia, rheumatoid arthritis, cancer and HIV. Many of the specialty drugs are derived from biologic agents.

The growth in expenditures for traditional pharmacy agents is approximately one to three percent annually, while annual growth in expenditures for specialty drugs is in the teens. To serve the population taking specialty medications, specialty pharmacies have developed a service model that addresses the special handling, delivery and educational needs of the specialty segment. Specialty pharmacies are a form of home delivery or mail order in that the medications are mailed directly to the patient versus the patient picking up their medications at a retail pharmacy. However, specialty pharmacies are not as highly automated as traditional mail order pharmacies due to the unique handling requirements of these drugs. The average days supply is 30 days or less as opposed to 90 days in traditional mail order dispensing. Health plans and other payers have generally opted to structure specialty pharmacy networks with a subset of pharmacies that specialize in specialty drugs for cost and quality reasons. With their ability to concentrate on specialty drugs, specialty vendors can achieve better pricing concessions from specialty manufacturers. Health plans and payers benefit from the concentration of volume by being able to negotiate better drug discounts with a specialty pharmacy than can be realized with a traditional pharmacy. Specialty pharmacies are also beginning to negotiate rebates on some specialty drugs.¹¹

During the audit period, the lack of a specialty pharmacy benefit and a specialty pharmacy to dispense specialty drugs adversely affected the SHP's costs. In July 2009, but outside of the audit period, the SHP was permitted to add Accredo as the exclusive specialty pharmacy vendor, thereby eliminating non-acute specialty drugs from being dispensed from the retail network. However, oncology/cancer drugs were excluded from the specialty network and left within the physician network under the medical pharmacy benefit. This decision could have significant impact on costs for the SHP if the costs of oncology drugs are not as aggressively managed on the medical side as they are on the pharmacy side of the SHP. Cancer is the area with the most specialty drugs in development in the pharmaceutical industry. Oncology/cancer drugs typically account for more than 50 percent of total specialty drug spending. Forecasts suggest that spending on cancer drugs could reach \$80 billion nationally by 2012, due to the number of patients with cancer as well as the increasing cost of treatment.

The SHP also had higher drug costs within specialty pharmacy than it would have if it had an exclusive specialty pharmacy network and a specialty pharmacy benefit. With the absence of an exclusive pharmacy network, specialty drugs were dispensed primarily under a retail network contract and resulted in higher drug costs and additional administrative costs.

¹¹IMS Health 2009 data: IMS Health is a company that provides data and analyses for the healthcare industry. IMS data is considered the gold standard in pharmaceutical and healthcare market intelligence information.